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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 001157

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SUBJECT: SARG SEEKS ALTERNATIVE IN ISLAMIC BANKING

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

¶1. (C) Summary: This week, the Ministry of Finance used a conference on Islamic banking to present these banks as a viable alternative to Western financial institutions. Conference participants agreed that potential demand for Islamic banking in Syria is high, and significant enough for Syrian private banks to be developing their own plans for tapping into the market. Secular economic reformers likewise are embracing the concept as a way to bring the transactions of those who remain leery of both public and private banks into the formal sector. However, members of the Damascus business elite who attended the conference expressed concern about the religious ideology of Islamic banking, and the signal of support for that ideology sent by the SARG's high-level participation. End summary.

¶2. (U) A two-day conference on Islamic Banking in Syria, sponsored by the Ministry of Finance, concluded on March 14, with government dailies announcing that a group of Saudi, Kuwaiti and Syrian investors plan to establish the first Islamic bank in Syria before the end of 2006. Islamic banks with a starting capital of \$100 million, more than three times the amount required of private commercial banks, are allowed to operate in Syria since President Asad signed Legislative Decree #35, The Islamic Banking Law, in May 2005. Minister of Finance Mohammad al- Hussein opened the conference on a combative note, discounting US financial sanctions (septel) and promoting Islamic banking as an answer to US pressure. The conference had strong Islamic overtones, highlighted by the presence of Syria's Grand Mufti, Sheikh Ahmad Badr Eddin Hassoun, who shared the dais with Hussein and characterized Islamic banks as a just alternative to "unfair and monopolistic" US institutions.

¶3. (U) Many of the presentations that followed were equally ideological and anti-Western. A representative of an Islamic financial institution in the Gulf stated that Islamic banks are a bulwark against an international capitalist system whose constant quest for profits is tantamount to war against the interests of the people. Another speaker opined that Islamic banks provide their shareholders (depositors) with "rewards in heaven" that are incomparable to the interest earned on traditional accounts. Other presenters, while making the economic argument that the approximately \$1 billion global Islamic banking industry has posted returns on equity that often exceed its competitors in the commercial banking system, still stressed that the religious foundation of Islamic banking is its main competitive advantage.

¶4. (C) The audience of predominantly Damascene business elite responded skeptically to the more ideologically-based

presentations. Bassel Hamwi, General Manager of Audi Bank, and Rateb Shallah, President of the Damascus Chamber of Commerce, who participated as a speaker and moderator, respectively, were visibly uncomfortable with some of the ideas presented. Abdul Kadr Housrieh, an economist with Ernst & Young and unofficial advisor to the government on economic reform, worried that Hussein sharing the dais with the Grand Mufti sent the "unfortunate" signal to proponents of western-style economic reform that the SARG supported not just the economic potential of Islamic banking, but its religious ideology as well.

15. (C) Despite their misgivings about its sometimes troubling ideology, secular contacts in the banking sector did express guarded enthusiasm for the possible money-making and social benefits of Islamic banking. Wissam Merhaj, a Deloitte & Touche manager in Syria whose firm has several Islamic banking clients, stated that the Islamic banks will appeal to more devout Muslims and less affluent Syrians in rural areas.

Several contacts independently estimated that 70% of the potential banking market in Syria would choose an Islamic bank over a commercial bank if given the choice, although it is unclear how they arrived at this percentage. The general managers of both Byblos and Audi Bank told us they plan to develop a line of Islamic banking services before the end of the year to tap into what they view as a potentially lucrative market. Housrieh, who helped draft the Islamic Banking Law, stated his belief that Islamic banks will appeal to the currently un-banked, bringing more financial transactions into the formal sector, and spreading access to badly needed capital.

16. (C) Comment: Even while expressing disdain for its accompanying ideology and viewing it as something of a fad,

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our secular banking contacts uniformly agree that Islamic banking will play well in Syria and are looking for ways to get a share of the expected profits. The SARG, meanwhile, is using its promotion of Islamic banking to burnish its Islamic credentials and show that it has options in the face of US pressure. The most positive take is Housrieh's, who believes that Islamic banks will expand the formal banking sector and help push Syria's centrally-planned economy toward a free market by significantly expanding access to credit.

SECHE